

The Fiscal Year 2004 actuarial report and audited financial statements are available in full at www.getKAPT.com.

KAPT
P.O. Box 798
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1-888-919-KAPT (toll-free)
www.getKAPT.com

KAPT is administered by the Kentucky Higher Education Assistance Authority (KHEAA).



KAPT

Kentucky's Affordable Prepaid Tuition

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KHEAA Promotes Equal Opportunity M/F/D

Administered by



Kentucky Higher Education Assistance Authority

2004 UPDATE

KAPT

Kentucky's Affordable Prepaid Tuition



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LETTER FROM THE CHAIR

Dear Fellow Kentuckians:

Just four years after KAPT was created by a unanimous vote of the General Assembly, the program is already one of the Commonwealth's great success stories. After another extraordinary enrollment period last fall, nearly 9,000 Kentucky children have been given the opportunity of a more affordable higher education through KAPT.

Kentucky taxpayers, too, can rejoice. The KAPT program is entirely debt-free and continues to use no tax dollars for administration or any other purpose. Further, unlike other state programs which struggle with long-term deficits, KAPT has an actuarial surplus of more than \$2 million and is financially stable in the short- and long-term.

KAPT demonstrates how success is best produced by bipartisan cooperation. KAPT was sponsored by Representative Rocky Adkins (D) and Senator Lindy Casebier (R), bolstered by federal tax legislation offered by U.S. Senator Mitch McConnell (R), and financially strengthened by the hard work of Representative Harry Moberly (D), and the administration of Governor Ernie Fletcher (R).

I am proud to have been part of the team that created KAPT and to

have Chaired the program in its first four years. As originally contemplated, KAPT's governance should return—via pending reorganization legislation—to the capable hands of the Kentucky Higher Education Assistance Authority, on whose Board I serve. My most active role, however, will be as the dad of two KAPT kids, whose future is brighter because of this great program.

Jonathan Miller
Jonathan Miller, State Treasurer



Senator Mitch McConnell and State Treasurer Jonathan Miller launch KAPT's first enrollment period in 2001.



Governor
Ernie Fletcher

Representative
Rocky Adkins

Senator
Lindy Casebier

Representative
Harry Moberly

LONG-TERM ACTUARIAL SURPLUS

National news stories have reported that some state prepaid tuition programs have run into financial troubles, with some facing actuarial deficits running in the hundreds of millions of dollars.

Not so with KAPT. According to a recent actuarial study, KAPT is financially stable in the short- and long-term and has an actuarial surplus of more than \$2 million as of December 31, 2004.

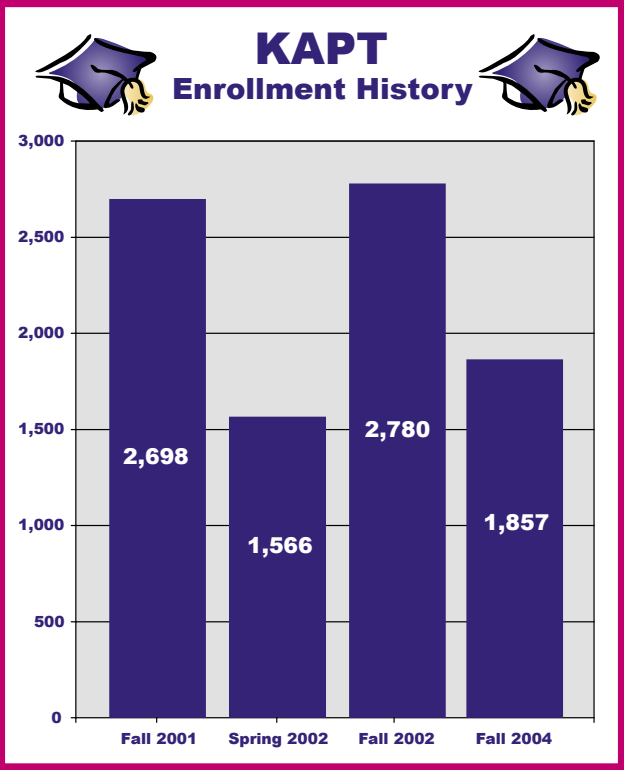
And this actuarial surplus does not take into account the state's Unclaimed Property Fund, 75% of which, by statute, is available to back the KAPT Program in case of a financial emergency. As of 12/31/04, the Unclaimed Property Fund was valued at \$161.4 million.



NEARLY 9,000 CHILDREN ENROLLED

Since its inception in October 2001, 8,901 Kentucky children have been enrolled in the KAPT Program.

By February 2005, KAPT's total invested assets are expected to exceed \$100 million.



KENTUCKY'S AFFORDABLE PREPAID TUITION (KAPT)

KAPT makes it easier for Kentucky families to afford college for their children and grandchildren by guaranteeing the cost of tomorrow's tuition at lower prices today. Furthermore, KAPT investments grow completely free of state and federal taxes.

This year, 154 KAPT beneficiaries became the first group of students to use KAPT tuition money at colleges in Kentucky and around the nation. KAPT wishes the very best to all of those students (and all future KAPT students), and KAPT thanks everyone who helped make the program such a success.

A SELF-SUSTAINING, DEBT-FREE PROGRAM

KAPT does not use tax dollars in its administration or any aspect of the program.

When KAPT was launched, the General Assembly enabled the program to take a \$1 million loan from the state's Unclaimed Property Fund for startup. That loan was repaid on time and in full in December 2004.



INVESTMENTS CONSISTENTLY BEAT THE MARKET

While keeping close track of every individual purchaser's account, KAPT pools its funds to gain the best investment return.

This approach has succeeded—KAPT's investments continually surpass market-based benchmarks.

KAPT Investment Performance History

Fiscal Year Ended June 30, 2004.....	15.26%
Benchmark* for Same Period.....	13.33%
12 Months Ended December 31, 2004	9.57%
July 1 through December 31, 2004.....	6.15%

*The benchmark is a portfolio of indexes blended to match the target policy of the fund.

KAPT Actuarial Status as of December 31, 2004

Actuarial Status 6/30/04.....	(\$13,007,051)
Transfer From KAPT Reserve	\$13,007,051
Favorable Investment Experience Gains	\$1,520,979
Miscellaneous Actuarial Gains and Losses ..	(\$387,894)
New Contract Premium Gains	\$1,028,962
Actuarial Status 12/31/04.....	\$2,162,047